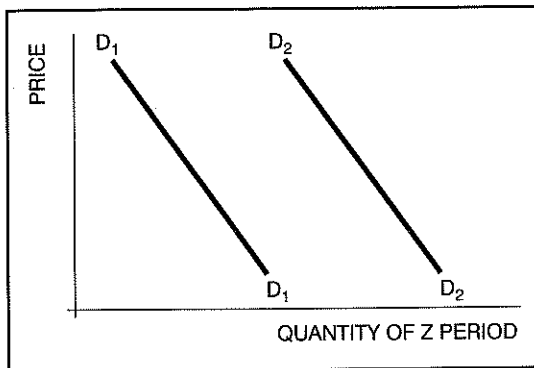


MULTIPLE CHOICE

- 1 A demand curve for a product is drawn on the assumption that all of the following remain unchanged *except*:

A The price of the product.
 B Consumer tastes.
 C The price of other products.
 D The size of the population.
 E Incomes.

- 2 The diagram relates to product Z.



Which of the following may have caused a movement from demand curve D_1 to D_2 ?

- 1 A falls in incomes.
 2 A rise in the price of a substitute.
 3 A rise in the price of a complement.

A 1 only
 B 2 only
 C 3 only
 D 2 and 3 only
 E 1 and 2 only

Questions 3–6 are based on the following five terms. Which applies in each case?

A Price elasticity of demand
 B Cross elasticity of demand
 C Income elasticity of demand
 D Price-elastic
 E Price-inelastic

- 3 After a fall in the price of a product total revenue from the sale of the good rises.

- ~~4 A measure of how responsive demand changes in people's incomes.~~

- 5 If the price of a substitute falls and the demand for another product rises we can measure this using what?

- 6 If the percentage change in the price of a good is less than the percentage change in the quantity demanded it causes, demand is said to be what?

Questions 7–8 are based on the following information. The income of a consumer rises from £100 to £120 while demand for the product falls by 40%.

- ~~7 What type of product is it?~~

~~A Normal
 B Complementary
 C Substitute
 D Inferior
 E Price-elastic~~

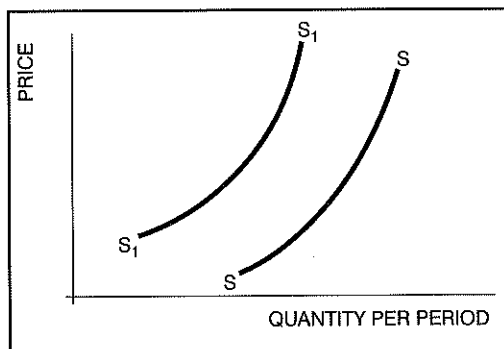
- 8 What is the value of income elasticity of demand?

A 0.5 B 8 C 2 D 2.5 E 0.2

- 9 Demand for a product is likely to be price-inelastic:

A The smaller the number of substitutes.
 B The smaller the number of complements.
 C The higher the price.
 D The greater the fraction of income spent on it.
 E The smaller the number of people who buy it.

- 10 The best explanation of the shift in the supply curve from S to S_1 would be:

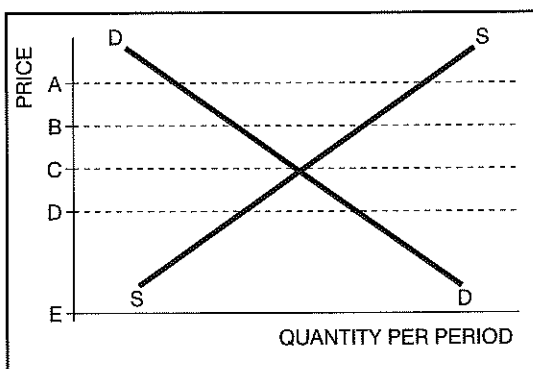


A A rise in the price of the product.
 B The granting of a subsidy.
 C A fall in the price of raw materials.
 D Technical progress.
 E A rise in wages paid to labour.

(continued)

- 11 The cross elasticity of demand for a product is -5 . The good is most likely to be:
- A An inferior good
 - B A complement
 - C A substitute
 - D A normal good
 - E A free good

Questions 12–14 are based on the following diagram.



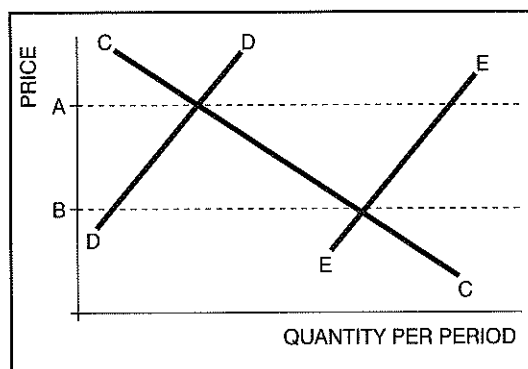
At which price will there be:

- 12 A market equilibrium?
- 13 The greatest excess demand?
- 14 The greatest excess supply?
- 15 If a bus company lowered its fare at peak times and total fare revenue fell, demand for bus travel at this time would be:
 - A Income-elastic
 - B Price-elastic
 - C Price-inelastic
 - D Income-inelastic
 - E Falling
- 16 If a rise in price from £1 to £1.10 caused supply to extend by 27%, price elasticity of supply would equal:
 - A 17
 - B 1.7
 - C 2.7
 - D 3.7
 - E 27

- 17 Which of the following pairs of commodities is an example of goods in complementary demand?
 - A Beef and lamb
 - B Coffee and tea
 - C Butter and margarine
 - D Quilts and quilt covers
 - E Salt and sugar

- 18 Other things unchanged, an increase in demand for a product will cause:
 - A Market price to rise and supply to contract.
 - B Market price to fall and supply to extend.
 - C An increase in supply as market price rises.
 - D An increase in market price and an extension of supply.
 - E Market price to rise with no change in quantity traded in the market.

Questions 19–21 are based on the following diagram.

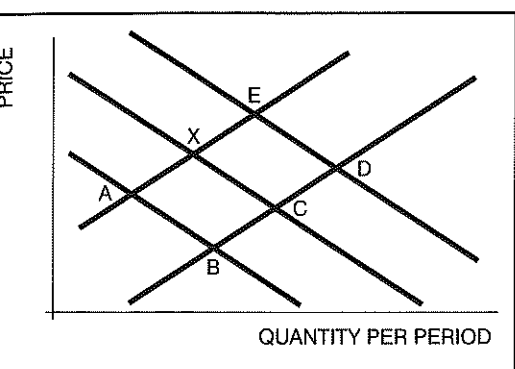


Given an increase in supply which curve or point indicates:

- 19 The increase in supply?
- 20 The new market price?
- 21 The demand curve?

(continued)

Questions 22–24 are based on the diagram below which represents changes in demand and supply in the market for chocolate bars.



is the initial equilibrium where supply equals demand, find the new equilibrium given the following changes. Use X as the original equilibrium in each case.)

- 22 A rise in people's incomes if chocolate is a normal good.
- 23 Technical progress in the chocolate-making industry.
- 24 A fall in the price of other sweets.

Questions 25 and 26 are based on the following terms:

- A A contraction of supply
- B A contraction of demand
- C A fall in demand
- D A fall in supply
- E An extension of supply

Which of the above best describes a situation where:

- 25 Crop disease leads to a poor harvest of corn?
- 26 An increase in air fares reduces the number of passenger flights?

DATA RESPONSE 1

Below are the demand and supply schedules for a certain commodity.

Price (£)	Quantity demanded per month (000's)	Quantity supplied per month (000's)
10	10	40
9	15	35
8	20	30
7	25	25
6	30	20
5	35	14
4	40	8

- 1 Plot the demand and supply curves on a suitable graph and label them D and S respectively. (6 marks)
- 2 What is the market price and the quantity traded at this price? (2 marks)
- 3 Assume that the Government imposes a tax on the commodity of £1. Plot the new supply curve on your graph and label it S_1 . (4 marks)
- 4 What is the new market price? (2 marks)
- 5 Imagine that the commodity in question is cigarettes. Why else may the supply of cigarettes fall? (6 marks)
- 6 If the demand for cigarettes is price-inelastic, what effect will the tax have on total spending on cigarettes? (2 marks)